

2012/13-2014/15

DRAFT BUDGET



**OF LOCAL MUNICIPALITY
OF MADIBENG**

CONTENT AND FORMAT OF 2012/2013 DRAFT BUDGET DOCUMENT

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List of acronyms

IDP	Integrated Development Plan
CRR	Capital Replacement Reserve
GAAP	Generally Accepted Accounting Principles
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognized Accounting Practice
DHLG	Department of Housing and Local Government
MFMA	Municipal Finance Management Act
SDBIP	Service Delivery and Budget Implementation Plan
CPIX	Consumer Price Index
FBS	Free Basic Services
GDP	Gross Domestic Product
MIG	Municipal Infrastructure Grant
BEE	Black Economic Empowerment
SMME	Small Medium and Micro Enterprises
LED	Local Economic Development
DEAT	Department of Education and Training
DPLG	Department of Provincial and Local Government
DWA	Department of Water Affairs
CBD	Central Business District
DORA	Division of Revenue Act
MTREF	Medium Term Revenue and Expenditure Framework
KPA	Key Performance Area
KPI	Key Performance Indicator
SFA	Strategic Focus Area
MSA	Municipal Systems Act
PMS	Performance Management System
PPP	Public Private Partnership
DBSA	Development Bank of South Africa
DM	District Municipality
SALGA	South African Local Government Agency
SETA	Sectoral Education and Training Authority
HDI	Historically Disadvantaged Individuals
CDW	Community Development Worker
EPWP	Extended Public Works Programme
NERSA	National Energy Regulator of South Africa
MSIG	Municipal Systems Improvement Grant
NDPG	Neighbourhood Development Partnership Grant
INEG	Integrated National Energy Grant
MM	Municipal Manager

BUDGET SPEECH DELIVERED BY THE EXECUTIVE MAYOR CLLR MP MAGONGWA COUNCIL MEETING 31 March 2012

In tabling the 2012/2013 budget, the Executive Mayor delivered the following budget speech:

Honourable Speaker, Single Whip, MMC's, Councillors, the Municipal Manager, Directors and other staff.

It is an honour for me to table the 2012/2013 Draft Annual Budget today. This Budget is the first budget drafted since the new Council was elected. This Medium Term Revenue and Expenditure Framework budget for the period 2012/13 to 2014/15 is submitted along with all related budget policies and By-Laws.

In terms of Section 16(2) of the Municipal Finance Management Act, Act 56 of 2003, as amended, the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the new budget year.

The municipal budget as tabled in a draft format was prepared to address the aspirations of the new council, as elected in May 2011. Council's focus for this period is directed to women and youth, ensuring the capacitation and upliftment of this community.

The operating budget has included amounts of R575 000 per category to achieve this objective.

Poverty relief, job creation, SMME upliftment and HIV prevention and management have all been included into the budget for this financial year.

Following the budget being tabled, it is to be made available for public consultation, and at the end of that process Council must consider the budget a month before the start of the new financial year (31 May each year) at the latest for approval.

Section 17 of the MFMA requires the following:

(1) An annual budget of a municipality must be a schedule in the prescribed format—

(a) setting out realistically anticipated revenue for the budget year from each revenue source;

(b) appropriating expenditure for the budget year under the different votes of the municipality;

(c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;

(d) setting out—

(i) estimated revenue and expenditure by vote for the current year; and

(ii) actual revenue and expenditure by vote for the financial year preceding the current year

(2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.

(3) When an annual budget is tabled in terms of section 16(2), it must be Accompanied by the following documents:

(a) Draft resolutions—

(i) approving the budget of the municipality;

(ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and

(iii) approving any other matter that may be prescribed;

Section 19 of the MFMA requires that:

(1) A municipality may spend money on a capital project only if—

(a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to in section 17(2);

(b) the project, including the total cost, has been approved by the council;

(c) section 33 has been complied with, to the extent that that section may be applicable to the project; and

(d) the sources of funding have been considered, are available and have not been committed for other purposes.

(2) Before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider—

(a) the projected cost covering all financial years until the project is operational; and

(b) the future operational costs and revenue on the project, including municipal tax and tariff implications.

(3) A municipal council may in terms of subsection (1) (b) approve Capital Projects below a prescribed value either individually or as part of a consolidated capital programme.

The budget of the Local Municipality Madibeng here to be presented as attached has been compiled for the 2012/2013 financial year as well as estimates for the 2013/2014 and the 2014/2015 multi year periods.

National Treasury issued MFMA Circular No 58 and 59 (Annexure A & B) providing municipalities with information for the preparation of their MTREF (Medium Term Revenue and Expenditure Framework) budgets and including guidance on expenditures growth parameters which is set at 3 to 6 percent and related budget issues.

Nersa issued a guideline on the increase of the Electricity tariff increase from Eskom. This increase is 13,5 %, whilst the tariff increase proposed on Electricity is 16,5 % to cover the internal increases in cost.

Rand Water also indicated an increase of 13%, whilst the increase in the water tariff is 20% to cover losses and the internal increases.

Operational Budget

The Operational Budget is attached as Annexure D and currently shows a surplus of R 91 900. The total Revenue excluding Capital Grants is currently R 1 198 386 600 and the Total Expenditure excluding Capital Grant Expenditure is R 1 198 296 700.

The increases in tariffs are attached as Annexure J and the major services will increase as follows;

Rates – 5% excluding the rates shock of 25% which is no longer applicable;

Electricity – 16,5%;

Water – 20%;

Refuse (Solid waste) – 20%; and

Sewer - 7%.

All other services will increase with 7%.

The Tariff Policy and Schedules give information as to the basis on which the budget has been compiled. There will be general free basic water allowed if a consumer uses 6 kilo litre of water or less. Once a consumer uses more the free basic service falls away. This does not affect registered indigents, who will receive 6 kl of water free of charge, any usage above 6 Kilo litre must be paid for.

Basic charges on services will only be applicable to empty stands as being an availability charge.

The budget will mostly be funded from own revenue, with the inclusion of surcharges on direct purchases from Service Providers other than the municipality. The total Revenue amounting to R 1 198 386 600 consists of R 908 943 600 own revenue including agency fees of licensing and R 289 443 000 of Grants and subsidies.

The loss in distribution of both Electricity and Water is extremely high and maintenance has been increased in both these divisions to cope with the installation and repairs of connections to services. Dysfunctional meters will be fixed and where no meters exist new meters will be installed. Leaks of water will be fixed simultaneously through the process.

National Treasury's guidelines were taken into consideration and including guidelines on growth.

The salary increases was budgeted for based on CPIX plus 2% and the budget was increased to cater to fully fund positions. Overtime was decreased to an acceptable limit.

The gross profit margins on both Electricity and Water are worrying and needs to be increased to an acceptable level. Electricity's gross profit margin is as low as 9% and should be increased to 40%, this will cause an increase of 99% in the tariff. It is not fair to increase tariff in this order and the inefficiencies in distribution of electricity needs to be dealt with as a priority. Water's gross profit margin is 15% and will need a tariff increase of 45% on top of the suggested 20% to reach the acceptable gross profit margin. It is clear that the inefficiencies in water distribution should be dealt with on an extreme urgent basis.

The capital budget presented here is funded only through MIG funding and currently no internal funding of capital can be permitted. The MIG funding of R 198 870 000 is not included as revenue and expenditure in the budget, but will ultimately be included with the refinement of the budget. An additional amount of R 911 000 of external funding must still be confirmed and will be included in the final draft budget. Thus bringing the total Revenue budget to R 1 398 167 600 and the total Expenditure budget to R 1 398 075 700, thus a surplus of R 91 900.

The difference between the Capital budget and the MIG funds allocated is R 3,5 million which will be used to fund internal administrative charges in the PMU.

The Budget was drafted considering the draft long term financial plan. This plan includes several objectives which are as follows;

- To ensure the long term financial sustainability of the Local Municipality of Madibeng;*
- To adequately provide for both capital requirements as well as the servicing of debt incurred to fund capital infrastructure;*
- To adequately charge for depreciation of assets in order to generate sufficient cash to renew the assets;*
- To progressively improve collections and reduce the provision for bad debts budget; and*
- To identify new revenue sources as funding option for future years.*

It further include a Revenue Management and Enhancement Programme (RMEP) The function of the RMEP is to improve revenue levels and collections through;

- Fixing of the metering and billing value chain to ensure billing accuracy and integrity*

- Indigent Management through the automatic implementation of process and systems thereof;
- Implementation of a Telephone Query Management System supported by the Call Centre and trained staff;
- Reduction of the loss of water and electricity;
- Improvement of the municipal debtor's data quality;
- Restructuring the Key Accounts Management;
- Improvement of systems and processes
- Installing Water and Electricity Meters where needed.

The current rates basis of the municipality is not sufficient to fund the operational and infrastructure requirements. The municipality will have to embark on a programme to increase the current rates basis.

The following issues are included in the Budget;

- The surcharging of water purchased directly from Rand Water or any other supplier but the municipality;
- The surcharging of electricity purchased directly from Eskom;
- The linking of the Pre-paid electricity system to the Venus billing system; and
- The formalisation of villages and informal settlements.

The following needs to be included after all information has been submitted to the municipality;

- Obtaining the electricity distribution rights currently with the Tshwane Metro, for the Hartebeestpoort Dam area;
- The inclusion of Mooiooi town into the service delivery model.

The Rates Policy did not change significantly. The Rates shock which was phased in over the past three years is no longer applicable and the current 25 % is phased out. The current 50 % rebate on privately developed townships was not implemented correctly. The rebate will no longer be applicable once the stand is transferred into the first owner. All other rebates will stay in place.

The Municipality will promulgate a Rates By-law as soon as the budget process has been concluded.

A renewed SCM policy is attached as Annexure H and includes specifically SMME's and the new evaluation of Service Providers.

Other Policies and By-Laws forms part of the documentation submitted

Capital Budget

The capital budget in its draft format is estimated at R194,9 million. The top three spending allocations are:

- | | |
|---|-------------|
| 1. Hebron, Kgabalatsane, Rockville Water supply | R50 million |
| 2. Klipgat Exts Water supply | R25 million |
| 3. Makgabetlwane to Jericho road | R15 million |

Operating Budget

The operating budget shows revenue to the amount of R1,198,386,600 and expenditure of R1,198,294,700 realising a net surplus of R91 900.

The categories of revenue are as follows:

<u>CATEGORY</u>	<u>PROJECTED 2011/12</u>	<u>BUDGET 2012/13</u>
Property rates	205 350 998	257 300 000

<i>Service charges</i>	<i>472 329 790</i>	<i>581 100 000</i>
<i>Operational Grants</i>	<i>259 200 000</i>	<i>289 443 000</i>
<i>Other</i>	<i>31 561 842</i>	<i>70 543 600</i>
TOTAL	968 442 630	1 198 386 600

The categories of expenditure feature as follows:

<u>CATEGORY</u>	<u>PROJECTED 2011/12</u>	<u>BUDGET 2012/13</u>
<i>Employee costs</i>	<i>220 594 315</i>	<i>225 244 700</i>
<i>Councillor remuneration</i>	<i>18 662 615</i>	<i>26 600 000</i>
<i>Bad debt provision</i>	<i>173 300 000</i>	<i>190 000 000</i>
<i>Depreciation</i>	<i>27 222 944</i>	<i>40 395 500</i>
<i>Repairs and Maintenance</i>	<i>11 811 424</i>	<i>49 465 000</i>
<i>Interest expenses</i>	<i>53 600 000</i>	<i>35 000 000</i>
<i>Bulk purchases</i>	<i>331 076 560</i>	<i>378 078 000</i>
<i>Contracted services</i>	<i>48 581 875</i>	<i>82 160 000</i>
<i>Grants and subsidies paid</i>	<i>9 195 353</i>	<i>9 000 000</i>
<i>General expenses</i>	<i>51 748 369</i>	<i>142 305 900</i>
<i>Internal consumption</i>	<i>16 680 742</i>	<i>19 253 600</i>
<i>Contributions to provisions</i>	<i>750 000</i>	<i>792 000</i>
TOTAL	963 224 197	1 198 294 700

Tariffs

The Tariff policy gives information and guidance on the basis to which the budget revenue was calculated.

Honourable Speaker I therefore recommend

That Council takes cognizance of:

The tabling of the Draft Annual Budget for 2012/13 to 2014/15 and related policies,

By-Laws Tariff schedule and related documentation;

The stipulations of Section 21 of the Systems Act, Act 32 of 2000, as amended, be adhered to in terms of Public Participation Processes.

That it be noted that there will be minor adjustments in some tariffs and budget provisions.

I thank you.

Budget

Process

Overview

ANNEXURE A

2012/2013 BUDGET EXECUTIVE SUMMARY PRESENTATION

1. VISION OF THE MUNICIPALITY

To be a leading united Municipality through service excellence.

2. FOREWORD

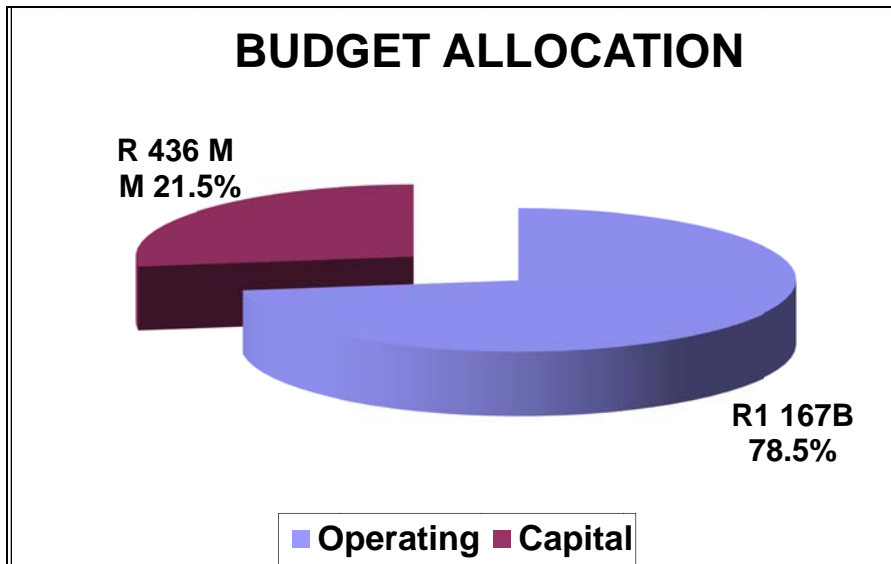
Local Municipality of Madibeng is characterized by huge backlogs in service delivery. Backlogs exist in all types of government services and encompass the services delivered by all levels of government. On local government level there are large numbers of households that do not have direct access to electricity, clean water, sanitation and infrastructure like municipal roads. This is still the case notwithstanding the progress government has made since 1994. To compound these problems the Municipality also faces the problem of the non-payment of services. The backlog in service delivery and the non-payment of services place inordinate pressure on the financial health of the Municipality. This has resulted in limited resources available to address or to respond to existing backlogs. Usage of available resources has limited our capacity to mobilize all of society in pursuit of our developmental objectives. It has hampered our efforts to prioritize resource allocations and to drive the implementation of government's objectives and priorities formulated by the municipality in its integrated development planning process

Factors that have been considered in compiling the budget are the following:

National Treasury guidelines was taken into consideration and including guidance on expenditures growth parameters which is set at 5.4% percent and related budget issues. The total expenditure of the proposed budget is based on 5.4% increase as allowed by the National Treasury. It must be noted that some expenditure items such as salaries and electricity will increase beyond the 5% and therefore effort to compensate for these extra ordinary increases are made from other spending areas. And can be summarized as follows:

- The period of the *Salary and Wage Collective Agreement 2009/10 to 2011/2012* has come to an end. In the absence of other information from the South African Local Government Bargaining Council, municipalities are advised to budget for a 5 per cent cost-of-living increase adjustment, to be implemented with effect from July 2012 (in-line with the increase proposed in the 2011 MTBPS)
- The Eskom price of bulk electricity supplied to municipalities will increase by 27.06 per cent on 1 July 2012. Municipalities are urged to examine the cost structure of their electricity undertakings and apply to NERSA for electricity tariff increases that are cost reflective and ensure continued financial sustainability. NERSA has set a guideline increase for municipal tariffs of **13.5%**.
- The increase on bulk purchases of water as well as the revenue is base in Rand Water proposed tariffs increase of 13 %.
- The income Sewerage, Refuse Removal and Rates is based on projected collection and proposed tariff increase of 7% and 20% respectively.
- Income from other sources is based on the projected collection and the proposed tariff increase of 7%.

2.1 Budget Allocation



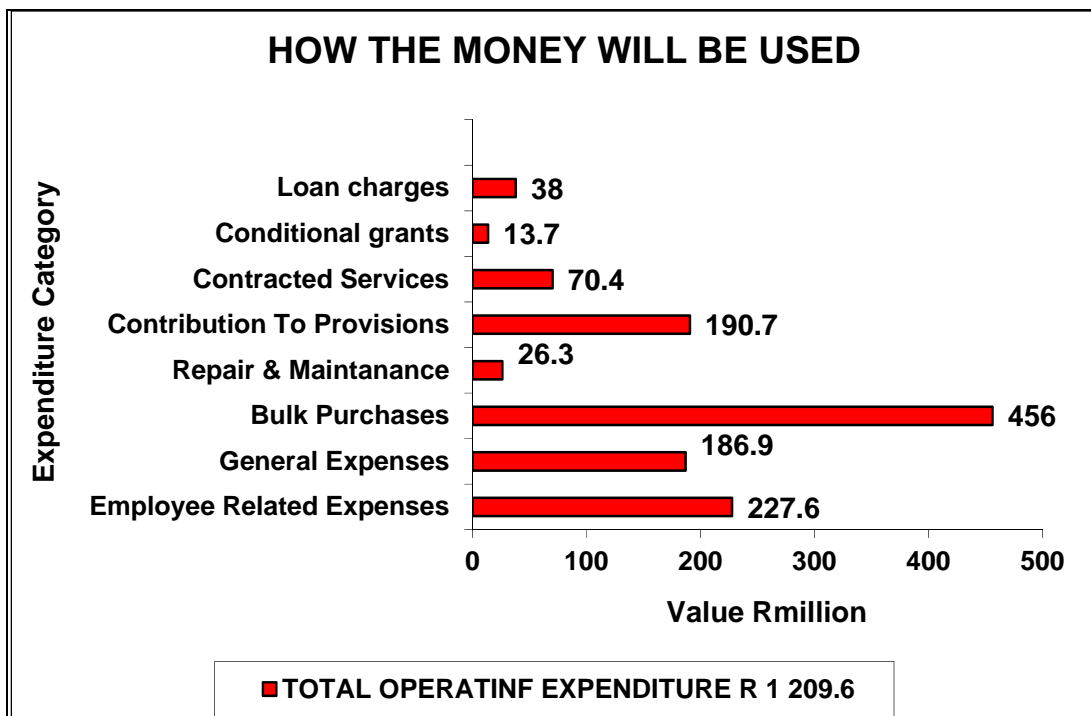
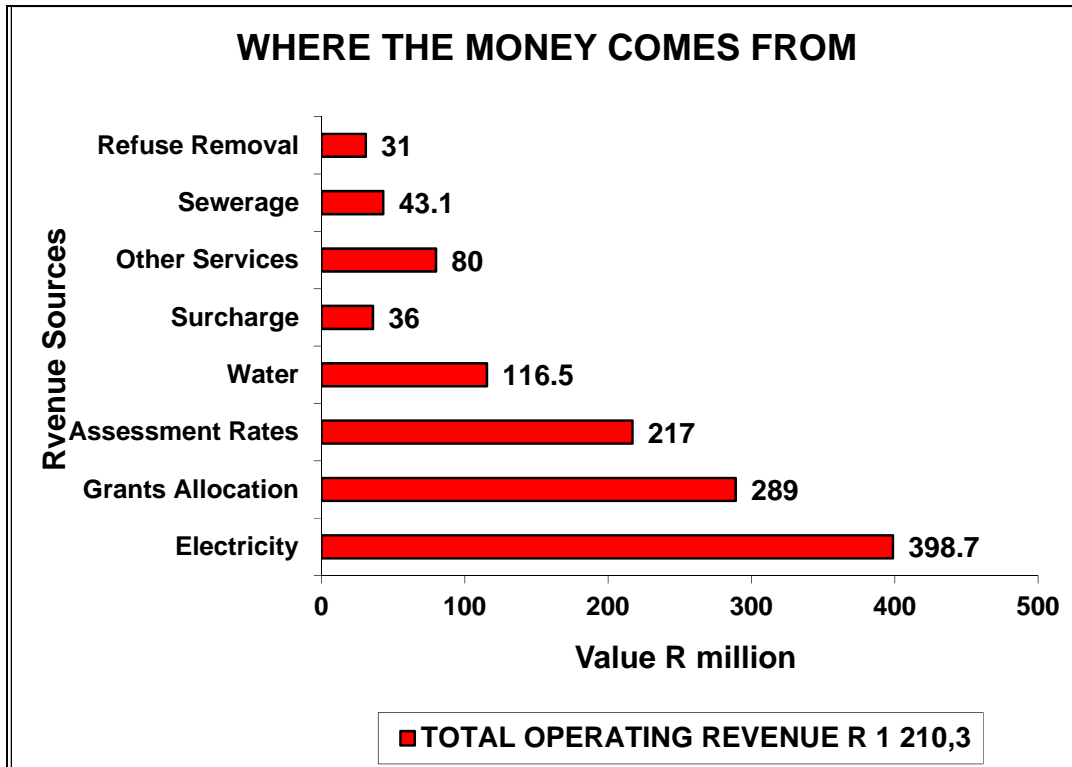
2.2 KEY BUDGET POLICY ISSUES

- Under maintenance costs the draft budget made allocations of R 26,3 million towards water and electricity provision services for about R 6,2 million and R 10 million respectively and R5,3 million for Roads
- Budget allocation of R15 million towards indigents assistance.
- The draft budget further makes a provision of about R38 million in 2012/13 financial year towards the settlement of the outstanding loans.
- The municipality will introduce a new charge which is surcharging. This charge is intended for the mines and other big companies which have negotiated with Rand Water and Eskom to receive water and electricity direct.

3. OPERATING BUDGET

The proposed budget for 2012/2013 amount to R 1 367 471 800 whilst those for 2013/2014 and 2014/2015 are R 1 441 265 504 and R 1 521 984 505 respectively. Summary of the budget is on Table 1 and a full budget is on table 2.

- Revenue Source and Expenditure Allocation



The following increase in tariffs for the basic services and other services for 2012/2013 financial year are proposed
Table 1

Services	Current 2011/2012	New 2012/2013
Property rates	6.08	0%
Water	14.1%	20%
Electricity	20.38%	16.5%
Sewer/Sanitation	6.08	7%
Refuse Removal	6.08	20%
Other Services	6.08	7%

**Budget Allocation
Table 1**

	Budget 2011/2012	Budget 2012/2013	Budget 2013/2014	Budget 2014/2015
TOTAL COUNCIL BUDGET				
REVENUE	-703 446 000	-806 351 000	-851 506 656	-897 488 015
BULK PURCHASES & GENERATION	346 493 726	456 032 411	481 570 226	507 575 018
CAPITAL GRANTS & DONATIONS	0	-200 370 000	-210 684 000	-228 863 000
OPERATIONAL GRANTS & DONATIONS	-258 200 000	-288 854 000	-307 305 000	-325 968 000
OTHER REVENUE	-30 662 999	-79 952 800	-87 630 157	-88 989 385
SURCHARGES	0	-36 000 000	-38 016 000	-40 068 864
TOTAL OPERATING INCOME GENERATED	-992 308 999	-1 411 527 800	-1 495 141 813	-1 581 377 265
INCOME FORGONE	31 650 000	43 980 000	46 442 880	48 950 796
INTERNAL RECOVERIES	0	0	0	0
TOTAL OPERATING INCOME	-960 658 999	-1 367 547 800	-1 448 698 933	-1 532 426 469
EMPLOYEE RELATED COST	196 157 390	208 018 298	219 665 824	231 527 778
COUNCILLOR ALLOWANCES	19 378 000	19 600 000	20 697 600	21 815 270
DEPRECIATION	40 000 000	37 435 412	39 531 584	41 666 289
REPAIRS & MAINTENANCE	16 272 734	26 395 500	27 873 648	29 378 825
CONTRACTED SERVICES	48 574 344	70 450 000	74 395 200	78 412 541
GENERAL EXPENSES	76 143 381	90 132 180	95 171 071	100 310 309
OTHER INDIRECT OPERATING EXPENDITURE	217 598 693	459 408 000	482 360 352	511 298 475
TOTAL SERVICE CHARGES	0	15 125 000	15 972 000	16 834 488
INTEREST EXTERNAL BORROWINGS	32 348 693	38 000 000	40 128 000	42 294 912
CONTRIBUTION TO PROVISIONS AND RESERVES	174 050 000	190 792 000	201 476 352	212 356 075
EXPENDITURE CONDITIONAL GRANTS & DONATIONS	11 200 000	13 710 000	14 100 000	10 950 000
EXPENDITURE CAPITAL GRANTS & DONATIONS	0	201 781 000	210 684 000	228 863 000
TOTAL OPERATING EXPENDITURE	960 618 268	1 367 471 800	1 441 265 504	1 521 984 505
SURPLUS/(DEFICIT)	40 731	76 000	7 433 429	10 441 964

4. CAPITAL BUDGET

The MTREF allocation of funds to the different capital needs in line with the IDP priorities and government funding requirements as well as funding sources are indicated on Table 3

Table 3

Table 3				
CAPITAL PROJECTS	BUDGET	BUDGET	BUDGET	Budget
	2011/12	2012/13	2013/14	2014/15
WATER DISTRIBUTION NETWORKS	98 690 158	79 981 000	60 000 000	55 000 000
SEWER TREATMENT WORKS	17 722 398	139 500 000	14 500 000	34 500 000
ELECTRICITY NETWORKS & SUBSTATIONS	7 125 000	4 600 000		
ROADS CONSTRUCTION	122 423 951	74 000 000	76 000 000	90 000 000
SOLID WASTE: HOUSEHOLD REMOVALS	3 000 000	12 000 000	10 000 000	9 000 000
WASTE DISPOSAL SITES	15 000 000	0		
CEMETERIES	6 168 633	8 800 000	6 500 000	2 200 000
LIBRARIES	3 698 437	3 400 000	18 500 000	0
SPORTS & RECREATION FACILITIES	13 903 112	8 200 000	24 300 000	8 000 000
LICENSING: DRIVERS LICENSES	348 079			
DISASTER MANAGEMENT	5 000 000			
TRADE & MARKET	2 372 680			
	295 452 448	330 481 000	209 800 000	198 700 000
FUNDING SOURCES				
MIG	280 951 448	195 900 000	207 800 000	198 700 000
HERNIC		2 100 000		
INEP	7 125 000	4 600 000		
LONMIN/IFC/AMPLATS		120 000 000		
LONMIN		3 500 000		
EPWP	7 376 000	4 000 000	2 000 000	
	295 452 448	330 100 000	209 800 000	198 700 000